Chapter 8

THE FAULT LINE IN THE SOUTH AFRICA ECONOMY

1. **An outstanding characteristic of the SA economy is the fault line that divides the "first" and the "second" economy in two separate worlds.**
2. **The fault line was originally drawn between the privileged whites and the exploited blacks and was introduced and maintained by colonialism segregation and apartheid.**
3. **When gold was discovered in 1886 it was only possible to exploit it profitably if cheap and docile black labour was available.**
4. **The Africans were at that time still economically independent as sharecroppers in maize production on white farms and also as traditional farmers in their own areas.**
5. **The *South African Native Affairs Commission (SANAC)* (1903-1905) proposed that African should be deprived of their economic independence and turned into an impoverished proletariat with no choice but to seek contract labour in the white economy.**
6. **The Land Act (1913) prohibited sharecropping on white farms and restricted the native reserves to only 8% of South Africa's territory**

THE POLITICO-ECONOMIC SYSTEM OF SA FROM ±1880 UNTIL ±1980

1. **The joint politico-economic system of SA was:**
   - **a political system of *white political dominance***
   - **and an economic system of *racial and colonial capitalism.***
2. **A close symbiotic relationship existed between the whites that control SA politically and the whites that control it economically.**
3. **The successive white governments enacted several black labour repressive laws - on request of the white employers classes - to satisfy the employers almost insatiable demand for cheap, docile and unskilled black (and especially African) labour.**
4. **The politico-economic system that was in place was an highly *dysfunctional* system because it did not - not even nearly - served the interest of all the different population groups.**
5. **This politico-economic system was highly dysfunctional, because it *discriminated* against the blacks (both politically and economically) and because it *exploit* many blacks (80% of the population) *systemically*.**

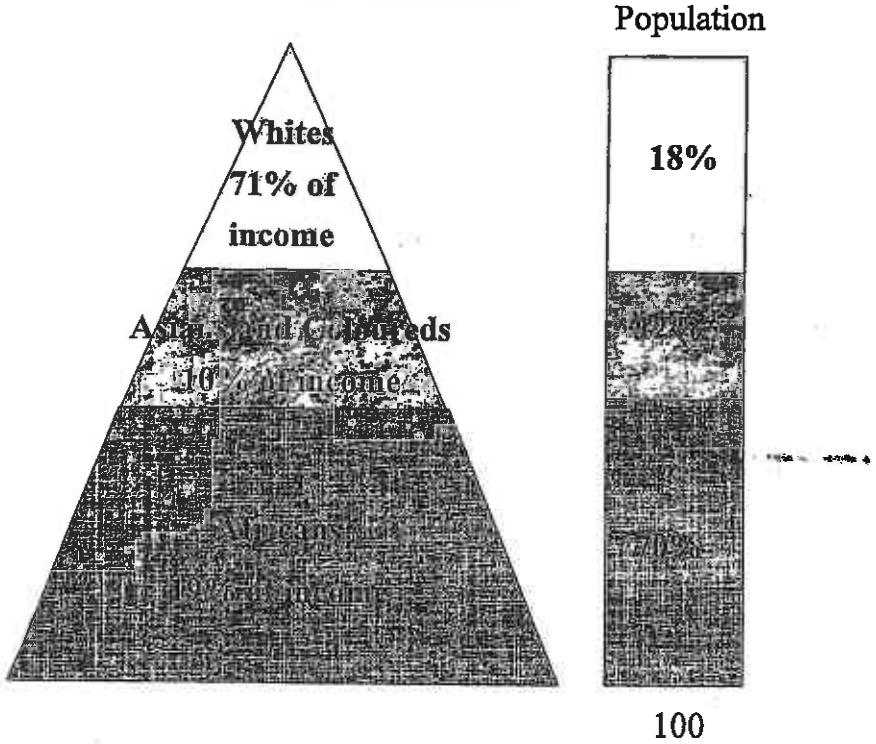
THE SOUTH AFRICA ECONOMY FROM 1913 UNTIL 1973

1. **The Land Act was the rock on which the gold and maize industries were built - the white employers classes attained high profits until 1973.**
2. **In 1952 Dr Verwoerd introduced a migrant labour system for employment in manufacturing. He introduced labour bureau to control the movement of African workers with an iron fist - the so-called "dompas" system**
3. **<u>The consequences of systemic exploitation</u>**
   - **From 1913 - 1973 the whites were always less the 20% of the total population and received constantly more than 70% of total income.**
   - **The Africans were almost 70% of the total population and received constantly less than 20% of total income.**
   - **The per capita-income of Africans decline from 9% of white per capita income in 1917 to only 6,8% of white per capita income in 1970.**
   - **Almost all property was in white hands, while Africans were not allowed to own property in "white" South Africa.**
4. **South Africa experienced its golden age of high growth from 1933 to 1973 - annual economic growth rate was 4,5%.**

THE FAULT LINE OF 1973

1. **In 1973 the fault line in the South African economy was already deeply institutionalised.**
2. **The African Homelands were underdeveloped reservoirs in which cheap labour was recruited and the Africa townships were sleeping in ghost towns.**
3. **The population was divided between a middle class (bourgeoisie) of 20% and an impoverished lower class of 80%.**
4. **The middle class was composed of almost all the whites and a small black (mainly Coloured and Indian elite.**
5. **The lower class was almost exclusively black and rather poor.**
6. **In 1973 SA was very much a racially divided society with a very unequal distribution of income.**

THE RACIALLY DIVIDED SOCIETY OF 1970 AND ITS UNEQUAL DISTRIBUTION OF INCOME



FROM 1974 TO 1994 THE FAULT LINE SHIFTED AND DEEPENED

1. **The 20 years from 1974 to 1994 was a period of stagflation and creeping poverty amidst the struggle, sanctions and disinvestment.**
2. **The annual growth rate was only 1,7% and the per capita income decline by 0,7% annually.**
3. **The per capita income of the top 25% of blacks increased by more than 40% because they were pampered by whites in a desperate attempt to convinced them about the alleged merits of apartheid.**
4. **But the income of the poorest 60% of the blacks declined by almost 50% as a result of increased unemployment.**
5. **In 1995 34% of the total African population (of 15 million) was permanently employed in the formal sector, in 1994 18% was thus employed and in 2003 only 14% of the total African population (of 35 million) was permanently employed**

FROM 1974 TO 1994 (continue)

6. **When the blacks and especially the African labour force lost its cheapness and its docility in the 1970s - amidst illegal African strikes and unrest - the corporate sector started to replace African labour by capital.**
   - **The capital intensity of the economy increased sharply from 1974 to 1994.**
   - **Unemployment increased from 1,8 million (20%) in 1970 to 4,2 million (30%) in 1995.**
7. **In 1994 the population was divided in two classes:**

   <u>Firstly</u>, a white middle class (4½ million) PLUS a black middle-class-in-the-making of ±8 million.

   <u>Secondly</u>, a black impoverished lower class of considerably poorer than in 1974 of ±26 million.
8. **From 1974 to 1994 the fault line *shifted* from 20% to ±30% of the population while it also *deepened* with the impoverishment of the lower 60% of blacks.**

THE TRANSFORMATION OF BOTH FACETS OF THE JOINT POLITICO-ECONOMIC SYSTEM FROM 1974 UNTIL 1994

1. **The transformation of the political system of white political dominance did not happened abruptly in 1994.**
2. **A slow but certain political *powershift* took already place from the Soweto unrest (1976) until De Klerk speech (1990): The whites were slowly losing its bargaining power and its legitimacy, while the top echelon of blacks (±25% of them) gained bargaining power and legitimacy. Consequently the per capita income of the top ±25% of blacks increased by 40% in spite of the creeping poverty during this 20 years.**
3. **As the capital intensity increased sharply from 1974 the SA economy was transformed from a system of racial and colonial capitalism into a *First World capitalist enclave* with capital intensive production processes.**
4. **As the economy moved towards enclavity, the labour absorptive capacity of the modern sector declined quite sharply and unemployment started to increase.**

ERE SHOULD WE DRAW THE POVERTY LINE ?

1. **The percentage of the population living in income poverty (or absolute poverty) declined from 51,1% in 1995 to 48,5% in 2002, but the number of the poor increased from 20,2 million to 21,9 million.**
2. **According to the SAHDR (2003) the *depth* of the poverty - or the so-called poverty gap - has also increased, i.e. the poor becomes poorer.**
3. **The South African Human Development Index (HDI) improved from 0,715 in 1990 to 0,730 in 1995, but deteriorated quite considerably to 0,680 in 2002.**
4. **The unequal distribution of income as measured by the GINI- coefficient increased from 0,596 in 1995 to 0,635 in 2001 - indicating larger inequality. This coefficient continues to place SA in the ranks of the most unequal societies in the world.**
5. **Although service delivery has improved over the past 10 years, 38% of households were still deprived of "good" access to four to six of the following seven basic services in 2001: *Health, energy, sanitation, education, communication, housing and drinking water.***

WHY HAS THE POOR BECAME POORER OVER THE LAST 10 YEARS?

1. **The ANC spend more on social services and poverty alleviation than the NP government, but by far not enough.**
2. **Social spending as a % of non-interest government spending increased from 51% in 1992 to 58% in 2004.**
3. **In 1994 poverty was already like a snow ball rolling in its own momentum against a slope - it continues to role over the past 10 years and it becomes bigger.**
4. **The poor is exposed to several poverty traps:**
   - **Increased unemployment**
   - **A lack of bargaining power - civil society is almost non-existent in poverty circles. (This is quite a problem because the ANC government's policies is moulded by pressure).**
   - **A large part of the poor are the captives of a sub-culture of poverty and has already developed a poverty mentality that perpetuates and aggravates poverty.**
   - **A mutually reinforcing dynamics exists between violence, criminality, and ill health on the one hand, and the pauperization process on the other.**

Employment in the formal and informal sectors				Situation if uneployment is reduced to 21% in 2014
	1970 million (%)	1995 million (%)	2003 million (%)	
Potential labour supply	± 9 million	± 14 million	± 20 million	± 23 million
Employment in the formal sector	6,5 million (72%)	8,1 million (50%)	8,4 million (42%)	13,4 million (58%)
Employment in the informal sector	0,7 million (8%)	1,7 million (12%)	3,2 million (16%)	4,8 million (21%)
Unemployment (wide definition)	1,8 million (20%)	4,2 million (30%)	8,4 million (42%)	4,8 million (21%)
	—	Additional job opportunities created from 1970 to 1995: 2,6 million	Additional job opportunities created from 1995 to 2003: 1,8 million	Additional job opportunities that must be created from 2003 to 2014: 6,6 million

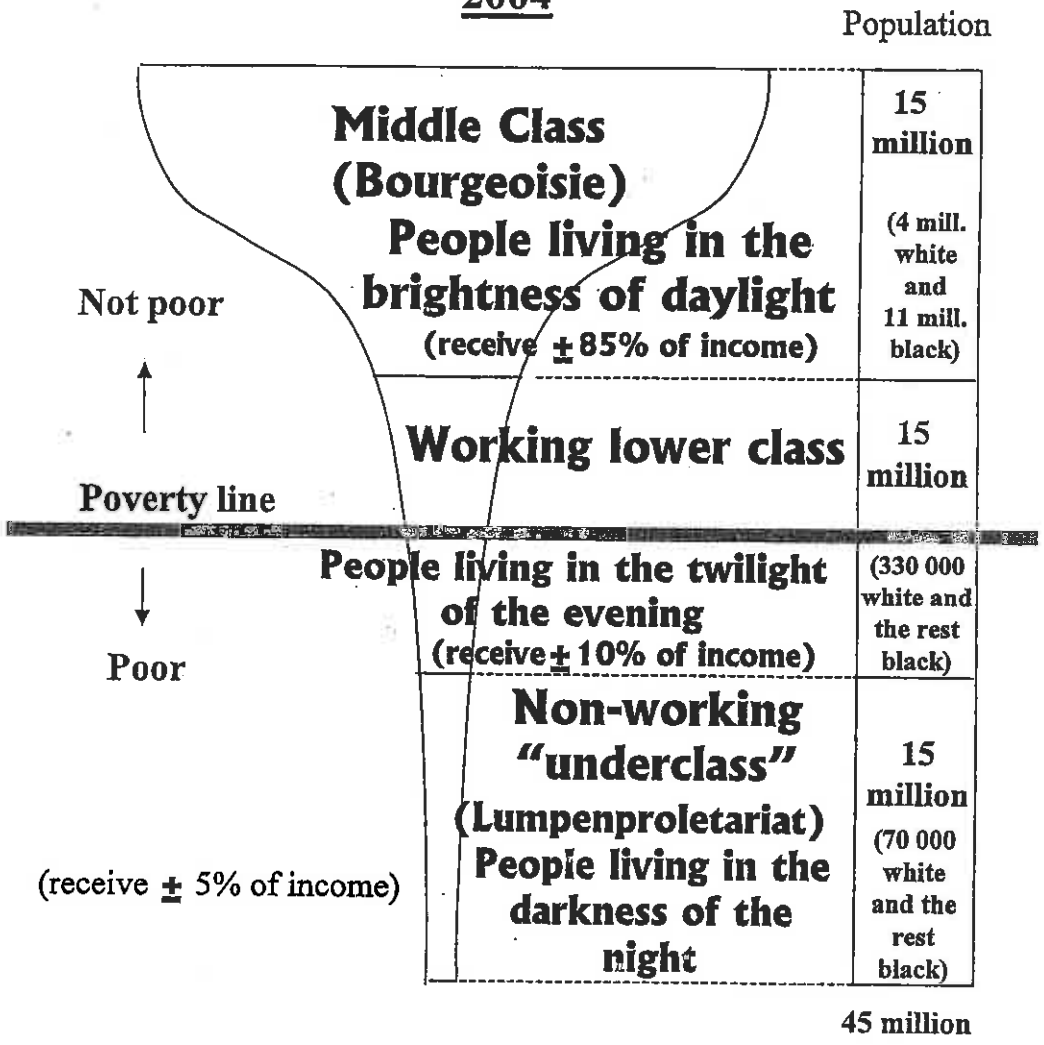
Source: Compiled from Bhorat & Hodge, 1999 and Gelb, 2003 en SAHDR, (2003) Tabel 2.7.

WHAT HAPPENED WITH THE FAULT LINE OVER THE PAST 10 YEARS?

1. **The fault line continues to *shift* and it continues to become *deeper*.**
2. **The trends from 1974 to 1994 - i.e. growing capital intensity, growing unemployment, the upward mobility of the top 25% of blacks and the downward mobility of the poorest 60% of blacks - continues unabated.**
3. **The free market economy, globalization, neoliberalism and the ANC's policies were all conducive for *shifting* the fault line and for *deepening* it.**
4. **Consequently, the black middle-class-in-making, became part of the new non-racial middle class of 15 million people - this class represents 1/3 of the population and receives ±85% of total income.**
4. **We can divide the lower 30 million of the population in two classes:**
   - **a *working lower class* of 15 million receiving ±10% of income – they are poor but not desperately poor.**
   - **and a non-working *underclass* (or lumpenproletariat) receiving ±5% of income – they are desperately poor.**

South Africa's Highly Stratified Class Society

2004



WHY IS THE ANC NOT SPENDING MORE ON POVERTY ALLEVIATION?

1. **In the early 1990s a new compact of power was forged between the corporate sector (and its global partners) and a leader core of the ANC - agreement was reach on several Elite Compromises.**
2. **For the ANC, the agreement implies three things:**
   - **<u>Firstly</u>, it committed itself not to restructure the modern sector (or the enclave),**
   - **<u>Secondly</u>, it accepted the idea of redistribution through growth, I.e. the "trickle down" scenario.**
   - **<u>Thirdly</u>, it accepted the ideology and systemic approach of global corporatism towards matters economic - i.e. neoliberalism, the idea that SA is (and ought to be) a free market system, globalization and export promotion.**
3. **The corporate sector agreed (somewhat reluctantly) to the policies of affirmative action (AA) and black economic empowerment (BEE). (Cooption has been a part of British colonialism).**
4. **Both AA and BEE were very instrumental in promoting the interests and the enrichment of the rising black middle class.**

ANC (continue)

5. More resources and opportunities were transferred over the past 10 years from whites to the black middle class (11 million) than to the 22 million whose income is below the poverty line.
6. Given the terms of the Elite Comprise the ANC's spending on black upliftment is very much "twisted" toward the black middle class and especially towards the black elite.
7. The BEE programmes very much lack proportionality and morality.
8. The poor is consequently systemically *excluded,* but rhetorically they are very much included.
9. To make matters worse, the modern sector (or the enclave) is also marginalising the poor. In 1994 40% of the population was already marginalised from the modern sector of the economy. Today a larger percentage is marginalised to a larger degree. No "trickle down", whatsoever, was experienced over the past 10 years.

THE DYSFUNCTIONALITY OF THE NEW POLITICO-ECONOMIC SYSTEM

1. The politico-economic system of 1970 was a system of *white political dominance* and an economic system of *racial and colonial capitalism.*
2. This system was highly *dysfunctional* - it discriminate and exploit the blacks systemically.

3a. The *political* facet of the new politico-economic system is a representation democracy that is controlled by the black middle class given the proportional system of representation,

3b. The *economic* facet of the new politico-economic system is an *open, first world capitalist enclave,* that is disengaging itself from a large part of the African labour force and consumer market.

4. In the new politico-economic system the ANC is from a party political point of view very strong, but form a governance point of view rather weak vis-a-vis to the strong pressure groups in society and in global capitalism.
5. The new politico-economic system is a huge improvement on the one of 1970, but it is still *dysfunctional.* It is dysfunctional because it does not serve all the groups and classes society – it in fact, *excludes* and *neglects* the poor systemically.

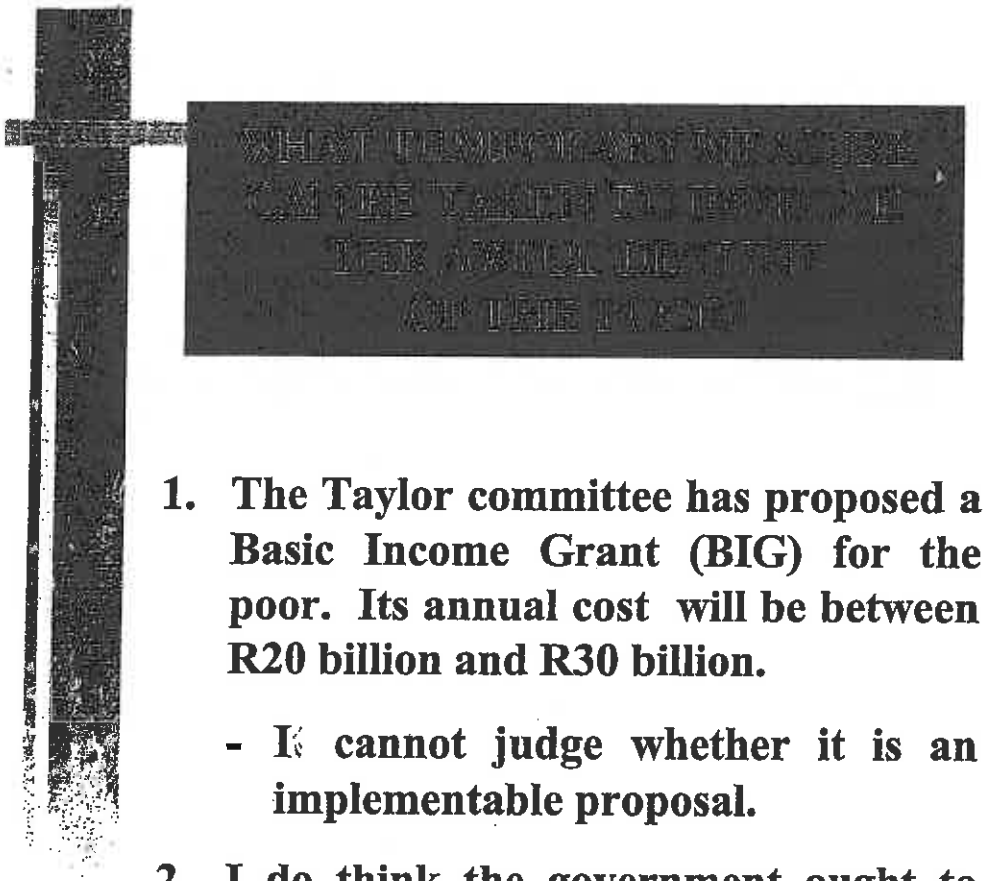
WHAT ABOUT THE NEXT DECADE?

1. If the ANC maintains its present policy approach and if a growth rate of 2,7% per annum is also maintained, then the fault line may shift further, but it will certainly also become deeper.
2. The size of the middle class may increase marginally.
3. But, given that ±3 million workers will enter the labour market and given the declining absorptive capacity of the enclave, it is highly likely that the poor will get even poorer, that the HDI will decline further and that the GINI coefficiens will increased further.
4. The ANC has promised the electorate that both poverty and unemployment will be cut by half in 2014

   To cut unemployment from 42% to 21% will necessitate the creation of 6,6 million new jobs. That is simply not attainable.
5. As long as the present politico-economic system - and the power relations and ideological orientation on which it is based - remains in place, the system will remain *dysfunctional*, the fault line will become deeper and the rich will become richer and the poor poorer.

WHAT IS NECESSARY?

1. It is necessary that the Elite Compromises on which agreement was reached in the early 1990s, be renegotiated.
2. The compact of power that was institutionalised in the early 1990s is at all not sympathetically orientated towards the plight of the poor.
3. It will, of course, not be easy to convince the privilege middle class – and especially the new black elite – to enter into a renegotiations of the Elite Compromises and to accept a different ideological approach.
4. Consequently, the highly needed restructuring of our political and economic systems will not take place for a long period of time.



1. **The Taylor committee has proposed a Basic Income Grant (BIG) for the poor. Its annual cost will be between R20 billion and R30 billion.**

   - **I cannot judge whether it is an implementable proposal.**

2. **I do think the government ought to spend ±R20 billion additionally on poverty alleviation and job-creation annually.**

3. **But it will also be difficult to convince the new compact of power to spend this amount additionally.**

The TWO Economy Divide In South Africa

Nov. 2005

» SAMPIE TERREBLANCHE

The most outstanding characteristic of the South African economy is the deep and growing chasm between the First and Second Economy in our two-economy divide.

When most economists, business people and government spokespersons comment on the South African economy, they claim that the economy is prosperous and in a good state of repair. This is only a half-truth. They are talking only about the modern sector, as if it represents the total economy.

It is a pity that Trevor Manuel does not acknowledge the growing chasm separating our two economies. Instead, he is escaping once again into struggle rhetoric thetoric and lofty promises. He even claims that poor people – and not the neoliberal ethic – are at the centre of the ANC's programmes! The ANC has indeed become notorious for promising one thing and doing another.

The First Economy is modern, smart and progressive. It is engaged in global capitalism and tooled with new, capital-intensive technology. It creates job opportunities for some 12 million people and has a large tax capacity. It has very much the characteristics of the economies in the Rich North and can, therefore, be described as an open First World capitalist enclave.

Thirty years ago South Africa still had a dual economy that thrived on the employment of unskilled black labour, especially in the primary sector. At that stage the economy had the characteristics of a system of racial and colonial capitalism. Since then the modern part of the economy has experienced a remarkable modernisation. Unfortunately, this modernisation did not take place to the benefit of the total population. During the process of modernisation the modern sector became much more capital intensive and with it a large part of the (mainly black) unskilled labour force was "declared" redundant. Consequently, unemployment increased from about 20% in 1970 to approximately 40% at present (according to the broad definition) or from some 2 million to 8 million people.

The process of modernisation transformed the dual economy into the dichotomy of the two-economy divide, with growing poverty in the Second Economy.

The trend towards modernisation or "enclavity" was already well established in 1994. Since then this trend has been strongly stimulated by the policies of neo-liberalism, market fundamentalism and globalisation as implemented by the ANC government under pressure of the corporate sector. The ANC claims – with a high degree of justification – that its intervention in the First Economy played an important role in the ongoing modernisation and in the relatively high economic growth rate attained in the modern sector. Both the white and the black middleclass – or the modernists – are the main beneficiaries of government.

The Second Economy is poor, undeveloped and underdeveloped. It cannot generate savings and investments. It cannot create jobs except the occasional odd jobs. At the time when the dual economy was in existence, the unskilled workers employed in the private part of the modern sector could send remittances to their families in the underdeveloped sector. With the emergence of the two-economy divide after the 1970s, the amount that is flowing from the private sector in the First Economy to the Second Economy in wages has declined sharply. The income that reaches the people in the Second Economy is now mainly social grants for those who qualify for such grants. But many inhabitants of the Second Economy – those who are and between the ages of 14 years and 60–65 years – receive no or very little income. It is a serious mistake to look at the two-economy divide as if it is a dual economy. »

The result of the government's interventions in the Second Economy have been dismally ineffective. Between 1992/3 and 2004/5 the share of the non-interest budget for social grants rose from 10% to almost 18%. This is no mean accomplishment, but not large enough by a long way.

Basic services such as water, electricity and sewerage systems have been supplied to many more households, but this is not sufficient from both a quantitative and qualitative point of view – especially due to poor service delivery.

A Report by the Development Bank of South Africa this year alleges "a sober examination of government's efforts [in the Second Economy] leads to the conclusion that, despite some successes and useful experiences, it has merely dabbled thus far, especially if the increased number of the poor is considered." The Report blames this failure on "the apparent absence of a coherent, scale-appropriate strategy for the Second Economy."

The living conditions of the inhabitants of the First Economy differ so sharply from those in the Second Economy that one can allege that the two groups are living on two separate islands. The inhabitants in the First Economy (about 50% of the total population) maintain living standards that compare with those of the Rich North. Over the past eleven years their per capita income has increased by more than 2% annually. They have access to good education and health services. The majority of them are living in convenient accommodation. They are in a position to protect their property and their personal safety with high walls and good insurance policies.

The inhabitants of the Second Economy (also about 50% of the total population) maintain living standards that compare with those in large parts of the poor South or other African countries. Over the past 11 years their per capita income has either remained constant or declined quite considerably. In spite of increased social spending on the poor, the Human Development Index (HDI) of the inhabitants of the Second Economy has declined sharply since 1994. South Africa's per capita income is $11, 240 making the country the 50th wealthiest in the world. But South Africa's HDI ranking declined from 85 in 1990 to 120 (out of 177 countries) in 2005 according to this year's UN Development Report. This increasingly "skewed" relationship between per capita income and the HDI is the result of worsening levels of poverty and inequality in South Africa. It is strange that Manuel and other government spokespersons do not acknowledge the distortion.

The poverty of the poor has deepened since 1994. Several factors play a role in this process: growing unemployment, crime and violence, chronic diseases such as HIV/AIDS and tuberculosis.

Although the government acknowledges that the problems of unemployment, poverty and inequality are serious matters that need attention, it is not prepared to acknowledge that the socio-economic conditions of the poor are deteriorating. The govern- »

ment is apparently too eager to demonstrate progress in poverty alleviation and is, therefore, unwilling (or unable) to undertake a proper investigation of the root causes and the true nature of the ongoing pauperisation process.

But why is the government not institutionalising a developmental state on behalf of the poor? Early in 2005 discussion documents were circulated at the ANC's National General Council (NGC). One of the documents stated unequivocally that addressing the challenges of unemployment, low growth, continued mass poverty and deep inequalities "will require that we make a choice in favour of a broadly accepted developmental approach". The success of such an approach rests, according to the document, on the "ability of the government to act as a 'developmental' state". To attain this ability it will be necessary to create "capacity at every level of the state to mobilise and direct social, economic and political resources where they are needed most".

The document on the developmental state was not accepted at the NGC meeting. Manuel, however, writes as if South Africa is already a developmental state.

The government's structural inability to institutionalise a developmental approach, is demonstrated rather poignantly by what happened at the Expanded Lekgotha in July 2005, immediately after the NGC. A joint national-provincial task team was appointed with Deputy President Phumzile Mlambo-Ngcuka as chairperson to make recommendations focused on getting the economy into a sustained higher level of growth of at least 6% annually. The brief of the task team "is to recommend the steps that should be taken to realise this goal, and not to waste time answering whether South Africa can attain it". *The ANC Today* of 12 August 2005 stated that this higher growth rate is needed to attain "the central task facing our nation... the eradication of poverty and underdevelopment".

It is highly unlikely that it will be possible to attain a 6% annual growth rate on a sustainable level if we consider the low level of savings, the shortage of skilled labour, the low productivity of the labour force, the lack of capacity in the public sector and the relatively small influx of foreign direct investment since 1994. But what is more important is that, even if South Africa were to attain a 6% growth rate, it is unlikely that the additional 8 million or so jobs that will have to be created to cut unemployment by half in 2014 will indeed be created.

By renewing its faith in the high-growth scenario, the government is yet again escaping into the fairy tale world in which it is believed that the mythical "trickle down" effect – on which the neo-liberal GEAR strategy is based – would bring about the necessary job creation, social transformation and social justice. By clinging to this myth, the government is taking the country on a road to Mean only end in disaster.

The reason why the government has again opted for "growth" instead of "development" is its structural inability to institutionalise a truly developmental state.

Firstly the capacity needed for a developmental state is conspicuously lacking in the public sector. Secondly, private power blocks in the First Economy (in a symbiotic relationship with the ANC) wield huge influence on government decision making, while the civil society in the Second Economy is fairly powerless – at least until now.

Thirdly, our involvement in global capitalism also militates against a developmental approach. Global institutions and transnational corporations do not promote "development" as they claim to do, but instead seek to incorporate the ruling elites in developing countries into the global system of rewards and penalties.

Although the government acknowledges that the problems of unemployment, poverty and inequality are serious matters that need attention, it is not acknowledging that the socio-economic conditions of the poor are deteriorating.

Manuel claims that the ANC can say with pride that they are not slaves of market and global forces. The structural inability of the ANC to institutionalise a truly developmental approach belies this claim.

As long as the government persists with its current policy approach the chasm between the First Economy and the Second Economy will widen. The South African economy has become like two islands! The one island is drifting towards the Rich North with all the wealth and comfort associated with it.This drifting in opposite directions cannot but create tensions in the "tectonic plates" on which the South African system is built. If the "drifting" continues, the tension between the "tectonic plates" may cause them to snap apart – sooner or later.

There should be no doubt that the growing confrontation between the modernists and the populists is about much more than the destiny of Jacob Zuma. //